

**STATEMENT BY JIM HARD
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CALIFORNIA PERFORMANCE REVIEW HEARINGS
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I'm Jim Hard, president of SEIU Local 1000, CSEA, which represents nearly 90,000 rank-and-file state workers.

State employees want to be partners in helping the state do the best possible job in meeting the needs of the people of California. We are people who chose public service as a career. We not only are motivated to improve public service, we have the knowledge and expertise to help achieve improvements. We're the ones who maintain and operate and troubleshoot the state's information technology systems. We're the ones trying to reduce the waiting lines at DMV. We're the ones who help the unemployed, care for the sick in state hospitals and prisons, and serve Californians in countless other ways.

Our views on improving state government are based upon one overriding principle: Californians need the right number of workers with the right skills to provide the best services.

That is why we appreciate the CPR staff's recommendations for a more competitive salary structure and updated job classifications. We also agree that the state should invest in better staff training, with the State Personnel Board monitoring the testing process to insure fairness.

Because many of us have worked for the State for decades, we've seen and participated in calls for reform before. We have an understanding *born from experience* about what makes a government reform program successful -- and what leads to failure.

The ingredients for success or failure can be considered in the form of a matrix:

Model For Success	Model for Failure
Open; Maximum Public Involvement	Secret; Developed behind closed doors
Commitment to the Public Interest	Shaped by Conflicts of Interest
Pragmatic, Problem Solving Approach	Narrow Ideological Approach
Involvement by Rank-and-File State Workers	No Opportunity for Rank-and-File Input

Unfortunately, as we look at the CPR report, we see too many elements of the Model for Failure. This Commission and Governor Schwarzenegger can play a critical role in re-directing this important effort towards the Model for Success.

Let's examine the components of the two models and where the CPR report fits:

1. Openness vs. Secrecy

Astonishingly, virtually every aspect of the CPR process took place behind closed doors. We do not know:

- What alternatives were considered and discarded?
- What arguments or information were considered in the development of proposals?
- What criteria were employed to choose between one alternative and another?
- Which individuals or organizations are responsible for the development of specific proposals?

In short, we know none of the information that a deliberative review body would require to intelligently evaluate these recommendations.

It is true that this Commission is providing an overdue opportunity for some public input.

But let's be realistic. There are 2500 recommendations. Public speakers are allocated 3 minutes to comment. It's somewhat hard to explain a point involving tens of millions of dollars and complex state administrative systems in three minutes. Even if each hearing allows the full two hours for public comment...and none of them have so far...fewer than 300 citizens will have the chance to speak out on this huge report.

Moreover, in making their comments, the public has no way of knowing whether the issues they are raising are new ones, or matters already considered by the CPR team.

On balance, up to this point the CPR process errs badly on the side of secrecy. Therefore, we urge the Governor to open up the process.

Before any additional action is taken on the CPR recommendations, California citizens should be offered the opportunity to request in writing a full explanation of the development of any recommendation. The explanation should include:

- The issues discussed in the analysis of that recommendation;
- The alternatives considered and the reasons they were rejected; and
- The individuals and organizations that participated in the process.

2. The Public Interest vs. Conflict of Interest

In California, the integrity of our government decision-making hinges on two principles regarding conflicts of interest:

- First, where conflicts of interest exist, the public is entitled to know about them

- Second, if conflicts are substantial, such individuals should abstain from participating in decision-making.

The CPR process utterly fails to meet the first principle. Because of that failure, we cannot tell whether it meets the second principle.

The CPR includes a statement of acknowledgements that includes hundreds of individuals, organizations, and businesses that provided “particular assistance” to the creation of the CPR recommendations.

But what kind of assistance?

We do not know which individuals or businesses participated in the design of specific recommendations.

We do not know whether they have financial interest in the implementation of that recommendation. In fact, *we do not know whether they have a financial interest so substantial that it would prohibit an elected official or senior government manager from participating in that decision.*

In California, we have a standard form, Fair Political Practices Form 700, the Statement of Economic Interests, that we use to determine whether those who influence government decision-making have conflicts of interest. A member of a city commission that makes recommendations about allocating a few thousand dollars of public funds has to fill out a Form 700, and that Form is available for public review.

In developing the CPR report, sales representatives, architects, business executives, consultants, lobbyists, attorneys and others all participated in making recommendations involving billions of dollars in public funds. Where are their Form 700's?

The fact that the consultants to the CPR process may not have had a legal obligation to fill out a form 700 doesn't resolve the broader issue.

The Fair Political Practices Commission states clearly California's **STRONG** requirements regarding conflicts of interest, “Every state and local government official, employee, and consultant **must** refrain from making or participating in a government decision that has a reasonably foreseeable material financial effect on his or her personal financial interests, regardless of whether the individual is required to file a statement of economic interests.”

How are we to tell whether this standard is being met when we have no information regarding which consultants worked on which proposals and no information regarding the financial interests of ANY of the consultants?

The fact that the private consultants to the CPR may have been uncompensated for their efforts in no way reduces the importance of this question. In California, unpaid consultants should also refrain from participating in decision in which they have a conflict.

Here in San Jose, we have a devastating example of the kinds of conflicts of interest that can be concealed by unpaid consultants.

San Jose is building a new city hall building with a new state-of-the-art telecommunications and technology system. Staff from Cisco Systems offered to help the city in creating this system. They did not charge for their services. Subsequently, investigators discovered that they:

- designed the new building's computer-and-phone network;
- wrote the entire list of 18,000 Cisco parts the city would buy; and
- participated with city officials regarding the bidding process

The result of this "voluntary" assistance was a process that allowed only companies that sold Cisco equipment to compete to supply the City network.

To their credit, Vice Mayor Dando and the City Council insisted on a full airing of the dirty laundry. Both the city Chief Information Officer and the Deputy Chief Information Officer have resigned. The city is re-bidding the technology contract for its city hall. But the consequences of the construction delays associated with rebidding will cost the taxpayers millions.

The moral of this story is simple -- Avoid the conflicts of interest at the front end of a government decision-making process. Unfortunately, we are about to complete the front end of the CPR process WITHOUT protections against conflicts of interest.

That is why we recommend that the experts who assisted in the process disclose their financial interests in any CPR proposals. We also urge public disclosure of any contacts by CPR with lobbyists. If there is a potential conflict of interest, the proposal in question should be removed from the CPR package and re-evaluated at a later date.

3. Narrow Ideology vs. Pragmatic Problem Solving

Ideological true believers assume they know the answers before they ask the questions. They don't bother to perform a realistic analysis of issues - because if reality contradicts ideology, they expect reality will yield. Over the centuries, the history books are filled with the stories of failed ideologues. Reality, it turns out, is a very tough competitor.

Unfortunately, in numerous cases, it appears the CPR recommendations reveal more about the ideological fervor of their proponents than they do about the actual practical effects of the proposal.

Let me offer a few examples.

Consider the very basic question - how many state employees should California have in the future?

No successful business would ever estimate its future workforce needs by calculating how many workers are planning to retire and then simply assuming it won't replace the retirees. A business determines its growth plans, its markets, its competition, and its revenue projections AND ONLY THEN calculates the workforce it needs to meet those objectives. In other words, the fact that a large number of state employees are near retirement age is irrelevant to the question of how many employees the state will actually need during the coming years.

The CPR initially gives lip service to this reality. It quotes the US Department of Health and Human Services that workforce planning means having the right number of employees with the right skills in the right jobs at the right time. The CPR also states admiringly that New York State approaches workforce planning by:

- identifying strategic goals and customer expectations
- determining the number of workers and the skill mix to meet those goals
- creating a plan to hire the sufficient workers with the right skills.

The CPR even recommends that the Governor direct state agencies to develop strategic plans to meet customer needs and then to develop workforce plans to align with the strategic plans.

But then ideology intervenes.

BEFORE ANY OF THIS PLANNING AND ANALYSIS HAS TAKEN PLACE, THE CPR PROCLAIMS THAT THE STATE CAN OPERATE WITH 12,000 FEWER EMPLOYEES BY FY 2009 AND CREDITS ITSELF WITH A SAVINGS OF MORE THAN \$ 4.3 BILLION.

Where did these numbers come from? From the ideological determination that California should arbitrarily cut the size of government without regard for the people it serves.

How do we answer this question with a practical, problem solving approach?

We go back to basics. First, we determine our strategic goals, and then we determine the resources we need to achieve those goals. We should know **WHAT NEEDS TO BE DONE** before we decide **WHO SHOULD DO IT**.

Another example of ideology concerns privatization.

The CPR recommends privatizing government functions from processing Medi-Cal claims to the auditing of health plans to administering child support service to driving school buses.

Now, it isn't necessarily an act of ideology to propose the privatization of a government service. But it is ideological TO ASSUME privatization will be successful WITHOUT EXAMINING ANY OF THE FACTORS IN THE REAL WORLD THAT LEAD TO PRIVATIZATION FAILURES.

By now, we know much about the failures of privatization. They include:

- Failure to appreciate the difficulty and the costs of oversight of private contractors;
- Failure to maintain quality of services;
- Failure to maintain security of personnel, property, and information;
- Failure to avoid corruption and conflicts of interest
- Failure to actually achieve competition among bidders;
- Failure to avoid significant cost increases once the public sector has discontinued the service;
- Failure to calculate the economic losses associated with the replacement of middle income jobs with lower paying jobs with no benefits; and
- Failure to project the costs associated with restoring the service to the public sector if privatization has to be discontinued.

There is ample evidence and analysis from other jurisdictions, including Florida and Texas, about these kinds of failures. Yet time and again, the CPR recommendations make the ideological assumption that privatization will be successful without disclosing any of these potential possibilities for failure.

Let me present a specific example in the area of Information Technology, a subject of today's hearing about which the CPR has developed numerous proposals.

The CPR has justified its IT recommendations by citing the creative approaches employed by other states, such as Virginia. But let's look at what Virginia has actually done.

Virginia discovered that in the IT field, "contractors cost the state nearly twice as much as a state employee; at the aggregate level, contractors represent 14% of the state IT workforce yet account for 28% of the cost; at the individual level, contractors cost an average of \$116,000 annually while state IT employees cost an average of \$67,000 annually."

So Virginia decided to INSOURCE – to take a service that was being outsourced and bring it into the public sector to be implemented by state employees. As a result:

“ In Virginia’s Department of Social Services alone, approximately 75 contractors were converted to full time state employees, at a total savings of more than \$1.75 million annually.”

It is interesting to note that Virginia’s IT Transformation Initiative, including its commitment to insourcing, received the annual award from the National Association of State Chief Information Officers.

And Virginia is not alone. Consider Delaware. In Delaware, CIO Tom Jarrett discovered the state had consultants on the payroll for years doing average jobs at salaries well above those of public sector employees. Jarrett was a problem-solver, not an ideologue. He *raised* the salaries of state IT workers, allowing him to attract talented staff. Then he dumped the consultants. The results, even after raising the state workers pay, was a saving of \$2.8 million.

How could the CPR effort have missed these successful models? Ideology closed off a strategy that has proven to generate millions in savings. The question we cannot yet answer is -- how many other significant cost saving ideas were also ignored or avoided by the CPR because of ideological reasons?

We urge Governor Schwarzenegger to discard those recommendations based on narrow ideology and concentrate on pragmatic proposals that will work.

4. State Employees—Using Their Expertise vs. Ignoring It

The CPR report is missing the perspective of rank-and-file state employees—the people who are on the front lines of state government and who best know what’s wrong and how to fix it. Fewer than 10 percent of the state employees who participated in the CPR deliberations were rank-and-file state workers. This is despite overwhelming evidence that successful governmental reform efforts involve frontline state employees in the process from the start.

Fortunately, it is not too late to change this. Our members and other state workers welcome the opportunity to contribute their expertise. We urge the Governor to use this valuable resource.

The people of California deserve a serious effort to reform and improve state government. That requires a process based on openness, focus on public need, real-world experience and practical solutions.

Thank you.

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